

**REPORT OF THE AUDIT OF THE  
CALDWELL COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2003**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Van Knight, Caldwell County Judge/Executive  
Honorable Stan Hudson, Caldwell County Sheriff  
Members of the Caldwell County Fiscal Court

The enclosed report prepared by Percy and Gray, PSC, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees of the County Sheriff of Caldwell County, Kentucky, for the year ended December 31, 2003.

We engaged Percy and Gray, PSC to perform the audit of this statement. We worked closely with the firm during our report review process; Percy and Gray, PSC evaluated the Caldwell County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure





**REPORT OF THE AUDIT OF THE  
CALDWELL COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2003**



## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE CALDWELL COUNTY SHERIFF**

**For The Year Ended  
December 31, 2003**

Peercy and Gray, PSC has completed the Caldwell County Sheriff's audit for the year ended December 31, 2003. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting described in Note 1.

#### **Financial Condition:**

Excess fees increased by \$6,163 from the prior year, resulting in excess fees of \$173,253 as of December 31, 2003. Revenues increased by \$6,736 from the prior year and expenditures increased by \$573.

#### **Report Comment:**

- Lacks Adequate Segregation Of Duties

#### **Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.





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***Kevin P. Peercy, CPA***

***Linda Gray, CPA***



The Honorable Van Knight, Caldwell County Judge/Executive  
Honorable Stan Hudson, Caldwell County Sheriff  
Members of the Caldwell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Caldwell County, Kentucky, for the year ended December 31, 2003. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2003, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 14, 2004 on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Honorable Van Knight, Caldwell County Judge/Executive  
Honorable Stan Hudson, Caldwell County Sheriff  
Members of the Caldwell County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Caldwell County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Percy and Gray, PSC".

Percy and Gray, PSC

Audit fieldwork completed -  
October 14, 2004

CALDWELL COUNTY  
 STAN HUDSON, COUNTY SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2003

Revenues

State Fees For Services:

Finance and Administration Cabinet	\$ 11,662	
Sheriff Security Service	18,358	
Cabinet For Human Resources	<u>160</u>	\$ 30,180

Circuit Court Clerk:

Fines and Fees Collected		1,900
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Fiscal Court

67,165

County Clerk - Delinquent Taxes

553

Commission On Taxes Collected

103,624

Fees Collected For Services:

Auto Inspections	\$ 5,750	
Accident and Police Reports	76	
Serving Papers	14,490	
Carrying Concealed Deadly Weapon Permits	<u>1,395</u>	21,711

Other:

Transporting Mental Patients	\$ 3,100	
Sheriff's Add-On Fees	<u>12,662</u>	15,762

Interest Earned

647

Total Revenues

\$ 241,542

Expenditures

Operating Expenditures:

Contracted Services-

Car Inspections	\$ 350	
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The accompanying notes are an integral part of this financial statement.

CALDWELL COUNTY  
 STAN HUDSON, COUNTY SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2003  
 (Continued)

Expenditures (Continued)

Other Charges-

Carrying Concealed Deadly Weapon Permits	\$	935	
Miscellaneous		<u>215</u>	<u>\$ 1,150</u>
Total Expenditures			<u>\$ 1,500</u>
Net Revenues			\$ 240,042
Less: Statutory Maximum	\$	63,753	
Less: Sheriff's Training Incentive		<u>3,036</u>	<u>66,789</u>
Excess Fees Due county for 2003			\$ 173,253
Payments to Fiscal Court - Monthly			<u>173,253</u>
Balance Due Fiscal Court at Completion of Audit			<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

CALDWELL COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2003 services
- Reimbursements for 2003 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2003

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CALDWELL COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2003  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems.

This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent for the first six months of the year and 7.34 percent for the last six months of the year. Hazardous covered employees are required to contribute 8.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent for the first six months of the year and 18.51 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2003, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

Note 4. Drug Fund

The Caldwell County Sheriff maintains an account restricted for the use of purchasing contraband, drugs and alcohol for undercover sting operations and to defray any necessary expenses pertaining to combating drugs. On January 1, 2003, the beginning balance of the account was \$3,829. During 2003, transactions included \$167 deposited into the account, and \$609 in disbursements. The account balance as of December 31, 2003 was \$3,387.



COMMENT AND RECOMMENDATION



CALDWELL COUNTY  
STAN HUDSON, COUNTY SHERIFF  
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2003

INTERNAL CONTROL - REPORTABLE CONDITIONS:

Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend the following compensating controls be implemented to offset this internal control weakness.

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet and receipts ledger.
- The Sheriff should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. Any differences should be reconciled. The Sheriff could document this by initialing the quarterly financial report.
- The Sheriff should examine the payroll checks prepared by Fiscal Court for accuracy, and distribute them to the employees.

*Sheriff's Response:*

*No response.*

PRIOR YEAR:

Lacks Adequate Segregation of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We are recommending the following compensating controls be implemented to offset this internal control weakness.

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily deposit and receipts ledger.

This comment is repeated in 2003.

CALDWELL COUNTY  
STAN HUDSON, COUNTY SHERIFF  
COMMENT) AND RECOMMENDATION  
For The Year Ended December 31, 2003  
(Continued)

PRIOR YEAR: (Continued)

- The Sheriff should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. Any differences should be reconciled. The Sheriff could document this by initialing the quarterly financial report.

This comment is repeated in 2003.

- The Sheriff should periodically compare payments to supporting documentation. The Sheriff could document this by initialing the invoice.

The Sheriff approves all purchase orders for disbursements before Fiscal Court pays them.

- The sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

The Sheriff now compares the monthly bank reconciliation to the balance in the checkbook, and initials the bank reconciliation and the balance in the checkbook.

REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



***Kevin P. Peercy, CPA***

***Linda Gray, CPA***



The Honorable Van Knight, Caldwell County Judge/Executive  
Honorable Stan Hudson, Caldwell County Sheriff  
Members of the Caldwell County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Caldwell County Sheriff for the year ended December 31, 2003, and have issued our report thereon dated October 14, 2004. This was a special report on the County Sheriff's financial statement prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Caldwell County Sheriff's financial statement for the year ended December 31, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Caldwell County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Percy and Gray, PSC".

Peercy and Gray, PSC

Audit fieldwork completed -  
October 14, 2004



